

# Development Incentives

# Chase Building at Centerpoint on Mill



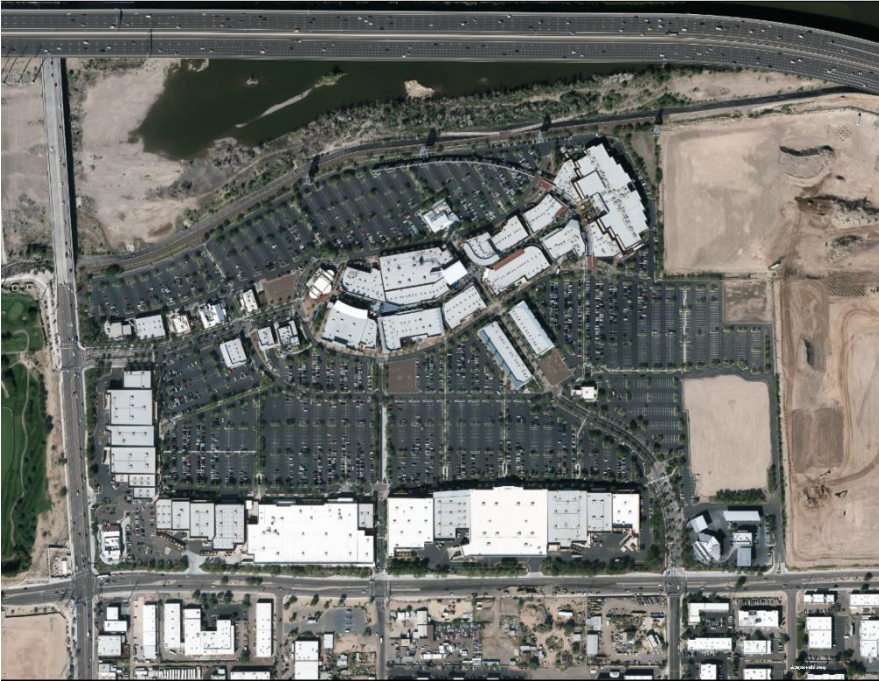
- Underdeveloped prior to 1991
- 8-year abatement, acquisition of private land, fee waivers, expedited permitting, sale of City land, ROW abandonment, parking agreements
- Estimated \$7.2 M in savings (GPLET only)
- GPLET ended in 2003; \$29.5M 2015 NPV
- Averaged \$850k/year in property taxes since 2004
- Jobs, retail/lease tax and first adaptive reuse (Ellingson warehouse)

# America West Airlines



- Minimal tax collected prior to construction
- 8-year abatement, expedited plan review, City payments, relocation of power lines
- Estimated \$5.6 M in savings (GPLET)
- GPLET ended in 2007; \$35.2M 2015 NPV
- Averaged \$991k/year in property taxes after GPLET
- Marketing Credits, ROW for Rio Salado, Parking

# Tempe Marketplace



- Minimal tax collected prior to construction; portions were county islands and State land
- Eminent domain, BEDI grant, Section 108 loan, deferred sewer/water, construction sales rebate, 15-year sales tax rebate and 30-year GPLET
- 1.3 M sq.ft. of retail



# Hayden Ferry Lakeside (Phase I)



- Almost no tax before 2002
- 8-year abatement, improvement district and purchase of City land
- Estimated \$6.3 M in savings (GPLET)
- GPLET ended in 2010; \$32.8M 2015 LPV
- Averaged \$888k/year in property taxes since 2011
- First Class A development on Lake, seeded future growth and Marina Heights

# Mechanisms of GPLET leases

- City-owned land
  - negotiated lease terms, may be an RFP
  - lease time-frame
  - purchase option/improvements and land retained by COT
  - COT may abate GPLET for 8 years from C of O or levy the rate
- Developer owned-land
  - negotiated terms included in DDA
  - property is conveyed (titled to) COT
  - COT then leases property to owner/developer
  - COT may abate GPLET for 8 years from C of O or levy the rate
- City owned building with commercial tenants
  - Urban Outfitters, My Big Fat Greek, Dixon Golf

# Accelerated Permitting

- Approved by development agreement
- Allows for accelerated review without standard fee
  - can have a significant impact of developer's delivery schedule
  - driven mainly by tenant demands
  - requested mostly for build-to-suits and large tenant improvements
- Used in Tempe for Marina Heights and Northern Trust

# Foreign Trade Zone

- Geographical area in or adjacent to (60 miles or 90 min drive) a United States Port of Entry
  - Tariff/tax relief designed to lower costs of U.S.-based operations engaged in international trade
  - Tempe is “covered” by PHX Zone 75
- Real and Personal Property in an activated FTZ is classified as Class 6 property (ARS 42-12006)
  - reduces “assessment ratio” to 5% vs. 18%
  - significant reduction in property taxes
- Used in Tempe for Microchip and Honeywell
  - property reclassification for Honeywell only for new construction (development agreement)



# Transaction Privilege (Sales) Tax Rebates

- TPT is 1.8%
  - 1.2% unrestricted, 0.6% for Transit and Arts
  - applied to “taxable activities” (e.g. retail sales, hotel rooms and contracting)
- “Retail development tax incentive agreements” subject to 9-500.11
  - Many rebates for projects that are not pure “retail” are subject to regulation
  - City has to demonstrate more benefit than developer
- Rebates for public infrastructure not subject to 9-500.11
- Used in Tempe for a number of developments
  - Tempe Marketplace, “Centerpoint Condos”, SeaLife and the Grand

# Transient Lodging (Bed) Tax Rebates

- Hotel /Motel /Transient Lodging
  - 1.8% privilege tax on the rental of real property (0.6% is restricted)
  - 5% transient lodging tax on the business activity of any hotel, motel,
  - total tax on a room is 6.8%
  - approved for use with USA Place but never executed
- Model could be used to support future hotel and conference center

# Current Incentive Policy

- Incentives provided on a case-by-case basis
  - value/impact of project
  - value to City/public
  - constraints of project site/property
  - site remediation required
  - conformance with General Plan 2040/Character Area Plans
  - creation of jobs
  - taxes generated from project
  - construction type
  - use not currently available within project location

# Informal Criteria to Evaluate Incentives Requests

- Will the incentive accelerate development of the site
  - development financial impractical without incentive (e.g. Marketplace)
  - market conditions make financing project difficult
  - Site is encumbered with financial/infrastructure burdens
- Will the incentive promote a project that would otherwise not be built
  - increased density/quality of construction
  - increase long term transaction privilege tax revenue
  - incentives will facilitate development that address priorities in GP2040/Character Areas
- Will incentive provide additional quality/amenities not otherwise feasible
  - public/transient parking
  - higher quality construction
  - Ability to convert rental product to condominiums

# What are Council's Priorities Moving Forward

- Continue to use informal guidelines
- Continue informal guidelines; establish clear priorities for incentives
  - redevelopment of underperforming strip centers
  - encouraging condominium and townhome projects
  - grocery store in the Downtown
  - hotel and conference center in Downtown
- Establish formal guidelines
  - include targeted industry clusters
  - building size and job requirements
  - overall impact of business/development